

News Release



Date: 27 May 2005
No. : 113/2005
Time of release: 11.00 hrs

Theme:
Economy and Finance

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27 November 2005

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Government Finance

Government Finance: January - April 2005

Commentary

Recurrent Revenue during the first four months of 2005 totalled Lm233.6 million, and made up 26.0 per cent of this year's budget forecast. Compared to the same period last year, this represents an increase of Lm5.4 million, or 2.4 per cent. At the same time, total expenditure¹ amounted to Lm303.4 million, an increase of Lm15.4 million, or 5.3 per cent, from the Lm288.0 million expended in the same period in 2004.

The shortfall between recurrent revenue and total expenditure¹ during the period under review amounted to Lm69.8 million this year, against Lm59.8 million one year ago. During the first four months of this year, as well as in the comparative period last year, there were no proceeds from sinking funds on converted loans, no contributions to the sinking funds, and no direct loan repayments. While during the January-April 2004 period no resort was made to local or foreign loans, during the same period this year, Lm40.0 million were borrowed from local sources.

The increase of Lm5.4 million in recurrent revenue for the first four months of the year was brought about by higher revenue registered under Value Added Tax (+Lm1.0 million), Fees of Office (+Lm2.5 million), EU Grants (+Lm16.9 million) and Miscellaneous Receipts (+Lm5.0 million). On the other hand decreases were registered under Income Tax (-Lm5.1 million), Customs and Excise (-Lm1.0 million), Public Corporations (-Lm1.9 million) and Central Bank of Malta (-Lm4.2 million). A decrease of Lm6.5 million was also registered under Licences, Taxes and Fines, partly due to the fact that the 2004 revenue included an amount of Lm5.0 million by way of initial fees receivable from the operator of the national lotteries

When compared to the same period last year, recurrent expenditure (excluding Public Debt Servicing) increased by Lm8.2 million, or 3.5 per cent, from Lm233.2 million to Lm241.4 million.

Personal emoluments to date amounted to Lm61.3 million, and made up 29.5 per cent of the budget forecast (Lm207.8 million), whilst the outlay for the same period last year totalled Lm61.7 million. These figures represent a decrease this year of Lm0.3 million, or 0.5 per cent.

Expenditure under the Operational and Maintenance Expenditure category amounted to Lm12.1 million during the reference period, as compared to Lm19.8 million for the comparative period last year. This represents a decrease of Lm7.7 million, or 38.8 per cent, which was mainly brought about through the reclassification of expenditures on medicines and surgical materials to the Programmes and Initiatives category as from January 2005.

^[1] In this case 'Total Expenditure' excludes Government's contribution to the Sinking Fund and direct repayments of loans. This definition is in line with the ESA95 manual on Deficit and Debt.

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Negligible expenditure was registered under the Special Expenditure category in both 2004 as well as in 2005.

Expenditure under the Programmes and Initiatives category so far this year amounted to Lm145.0 million, which is equivalent to 32.6 per cent of this year's budget estimate for this category. Last year's outlay under this category amounted to Lm124.4 million. The increase of Lm20.6 million was mainly due to increases in Social Security Benefits (+Lm3.9 million) as a result of the timing of payments on certain benefits in respect of which two payments were made in January 2005, compared to a single payment made in January 2004, EU Own Resources (Lm9.4 million) in respect of which there was no payment during the comparative 2004 period, MGI/MIMCOL (+Lm1.8 million), EAGGF Guarantee (+Lm1.5 million), Streets and Roads Lighting (+Lm1.2 million) and due to reclassification, (as explained above) of Medicines and Surgical Supplies (+Lm3.4 million). On the other hand, lower expenditure was registered under the Compensation Payment by Government (Lm6.3 million) which represented a once-only payment effected by government in 2004 as compensation for the increase in the VAT rate.

Outlay under the Contribution to Government Entities category during the first four months of 2005 declined by Lm4.3 million, and amounted to Lm22.8 million, down from last year's figure of Lm27.1 million. The main reasons for this were lower expenditure under MGI / MIMCOL (-Lm1.8 million) and Water Services Corporation, including the Drainage Directorate (-Lm1.1 million).

The interest component of the public debt servicing costs this year decreased by Lm0.2 million, from Lm24.3 million last year to Lm24.1 million.

During the first four months of 2005, Capital Expenditure amounted to Lm37.9 million, an increase of Lm7.4 million, or 24.1 per cent, when compared to Lm30.6 million expended last year. The main components of this increase were higher expenditure in the Ministries for Justice and Home Affairs (+Lm2.6 million), Finance (+Lm12.2 million) mainly due to reclassification of expenditure on the Mater Dei Hospital project, Tourism and Culture (+Lm1.3 million), Rural Affairs and the Environment (+Lm3.1 million), Urban Development and Roads (+Lm3.2 million) and Office of the Prime Minister (+Lm1.2 million). On the other hand, lower expenditure was registered under Education, Youth and Employment (-Lm1.2 million) and Health, Elderly and Community Care (-Lm13.1 million) mainly due to the reclassification mentioned above.

The Central Government debt outstanding at the end of April amounted to Lm1,390.1 million, representing an increase of Lm114.1 million or 8.9 per cent on the Lm1,276.0 outstanding at the end of April 2004. This total includes the current balance (Lm27.4 million) of Government's assumption of the debts of the ex-Malta Drydocks and of the ex-Malta Shipbuilding. The Sinking Fund investments in Government debt (Lm1.9 million) are deducted from the total outstanding balance.

This issue also includes data on the total debt guaranteed by Government. The amount of Lm299.9 million represents the outstanding balances on Government Guaranteed debt as at the end of March 2005 ■

Type of Expenditure	2004			2005		
	Jan - Apr		Jan - Dec	Jan - Apr		Jan - Dec
	Lm'000	% of final outturn	Actual Lm'000	Lm'000	% of budget estimates	Approved budget estimates Lm'000
Recurrent	233,157	31.82	732,846	241,368	31.70	761,404
Public Debt Servicing ²	24,315	25.21	96,444	24,109	26.73	90,178
Capital	30,565	29.22	104,620	37,938	27.68	137,076
Total	288,037	30.84	933,909	303,415	30.69	988,658

^[2] Inclusive of contribution to the Sinking Funds and direct repayment of loans.

Table 1. Government Finance Data

	Lm thousands										
	2002	2003	2004	2002		2003		2004		2005	
	Jan-Dec			Apr	Jan-Apr	Apr	Jan-Apr	Apr	Jan-Apr	Apr	Jan-Apr
GOVERNMENT FINANCE											
Total Revenue	770,957	873,487	921,875	62,582	215,275	61,972	235,250	76,985	228,201	69,488	273,592
<i>consisting of:</i>											
Loans	10,563	132,129	99,948	0	0	0	24,126	0	0	0	40,000
Receipts from sale of Shares	27,341	0	0	0	0	0	0	0	0	0	0
Other Extraordinary Receipts	13,250	2,137	8,899	0	0	0	0	0	0	0	0
Recurrent Revenue	719,803	739,221	813,027	62,582	215,275	61,972	211,124	76,985	228,201	69,488	233,592
<i>of which:</i>											
Grants	2,721	2,517	30,310	510	754	60	449	6	325	194	17,272
Customs and Excise	59,813	61,576	62,309	4,700	17,914	4,816	18,461	4,126	18,667	5,590	17,678
Consumption Tax	117,503	123,910	141,570	9,982	37,664	10,654	38,215	15,791	49,398	12,912	50,432
Income Tax	190,175	205,218	211,177	18,050	44,574	21,029	43,386	24,685	49,117	21,745	44,042
Social Security	181,142	188,427	189,657	15,952	47,209	15,508	48,365	17,873	47,906	14,615	45,986
Others	168,449	157,573	178,004	13,388	67,161	9,904	62,248	14,504	62,788	14,432	58,181
Total Expenditure	819,324	857,405	933,909	83,998	268,569	84,311	291,077	78,577	288,037	78,083	303,415
<i>consisting of:</i>											
Recurrent Expenditure	645,995	677,655	732,846	64,169	208,104	67,222	226,260	64,972	233,157	60,944	241,368
<i>of which</i>											
Education	47,502	48,998	50,212	3,911	16,498	3,769	17,270	3,355	16,427	3,751	16,225
Social security (benefits)	190,749	200,922	207,458	22,986	64,708	26,391	68,959	18,481	70,744	19,212	74,652
Others	407,744	427,735	475,175	37,272	126,898	37,061	140,031	43,136	145,986	37,981	150,491
Public Debt Servicing	75,657	75,781	96,444	8,694	26,986	7,298	22,557	6,074	24,315	7,671	24,109
Capital Programme	97,672	103,969	104,620	11,135	33,479	9,791	42,260	7,531	30,565	9,468	37,938
<i>of which</i>											
Productive Investment	31,526	28,372	27,036	3,236	12,683	2,167	10,579	635	7,090	1,937	10,768
Infrastructure	27,391	34,095	41,693	3,317	9,663	1,989	10,732	2,728	6,537	3,023	12,426
Social	38,754	41,501	35,891	4,582	11,133	5,635	20,949	4,169	16,939	4,508	14,744
Gross Government Debt [1]	1,076,961	1,259,605	1,354,171	1,049,135	1,049,135	1,147,333	1,147,333	1,276,039	1,276,039	1,390,141	1,390,141
Government Guaranteed Debt	374,008	315,023	303,534	414,773	414,773	360,444	360,444	265,722	265,722	299,907	299,907 (*)

[1] Made up of Treasury Bills issued and outstanding (at nominal prices), Government Stock, Foreign Loans, Ex-Malta Drydocks and Ex-Malta Shipbuilding Debt Assumptions less Malta Government Stocks owned by the Sinking Fund.
Data for the last three months is to be considered provisional.
At end of period indicated.

(*) Position at end of March 2005

Note: Figures may not add up exactly due to rounding.

Source: The Central Bank of Malta (Government Debt position);
The Treasury (Government Revenue and Expenditure data)

Table 2. Comparative Government Finance Data: January - April 2005

Description	Jan - Apr			Jan-Apr 2004/Jan-Apr 2005		Jan-Apr 2005
	2003	2004	2005	Absolute	% Change	% Dist.
				Change		
	Lm '000s					
Total Revenue	235,250	228,201	273,592	45,391	19.89	100.00
<i>consisting of:</i>						
Loans	24,126	0	40,000	40,000	N/A	14.62
Receipts from Sale of Shares	0	0	0	0	N/A	0.00
Other extraordinary receipts	0	0	0	0	N/A	0.00
Recurrent Revenue	211,124	228,201	233,592	5,391	2.36	85.38
<i>of which:</i>						
Grants	449	325	17,272	16,947	5211.43	6.31
Customs and Excise	18,461	18,667	17,678	-989	-5.30	6.46
Consumption Tax	38,215	49,398	50,432	1,034	2.09	18.43
Income Tax	43,386	49,117	44,042	-5,074	-10.33	16.10
Social Security	48,365	47,906	45,986	-1,920	-4.01	16.81
Others	62,248	62,788	58,181	-4,607	-7.34	21.27
Total Expenditure	291,077	288,037	303,415	15,378	5.34	100.00
<i>consisting of:</i>						
Recurrent Expenditure	226,260	233,157	241,368	8,211	3.52	79.55
<i>of which:</i>						
Education	17,270	16,427	16,225	-202	-1.23	5.35
Social security (benefits)	68,959	70,744	74,652	3,908	5.52	24.60
Others	140,031	145,986	150,491	4,505	3.09	49.60
Public Debt Servicing	22,557	24,315	24,109	-207	-0.85	7.95
<i>of which:</i>						
Contribution to Sinking Fund	0	0	0	0	N/A	0.00
Interest Payments	22,097	24,315	16,438	-7,877	-32.40	5.42
Repayment of Loan	460	0	0	0	0.00	0.00
Capital Programme	42,260	30,565	37,938	7,373	24.12	12.50
<i>of which:</i>						
Productive Investment	10,579	7,090	10,768	3,678	51.88	3.55
Infrastructure	10,732	6,537	12,426	5,890	90.11	4.10
Social	20,949	16,939	14,744	-2,195	-12.96	4.86
Structural Deficit [1]	-79,493	-59,836	-69,823	-9,987	16.69	
Gross Government Debt [2]	1,147,333	1,276,039	1,390,141	114,102	8.94	100.00
<i>of which:</i>						
Treasury Bills	263,740	269,000	242,903	-26,097	-9.70	17.47
Govt. Stock	839,963	894,329	1,054,696	160,367	17.93	75.87
Foreign Loans Outstanding	43,630	71,036	66,994	-4,042	-5.69	4.82
Other debt assumptions	-	41,846	27,427	-14,419	N/A	1.97
MGSF investments in Government Debt	-	-172	-1,879	-1,707	N/A	-0.14

[1] Shortfall between Recurrent Revenue and Total Expenditure (less contribution to the Sinking Fund and direct loan repayment).

[2] Made up of Treasury Bills issued and outstanding (at nominal prices), Government Stock, Foreign Loans, Ex-Malta Drydocks and Ex-Malta Shipbuilding Debt Assumptions less Malta Government Stocks owned by the Sinking Fund.

Data for the last three months is to be considered provisional.

At end of period indicated.

Note: Figures may not add up exactly due to rounding.

Sources: The Central Bank of Malta (Government Debt position)
The Treasury (Government Revenue and Expenditure data)

Table 3. Government Revenue and Expenditure

January - April 1993 - 2005

(January - April 1995 = 100)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	January - April												
GOVERNMENT FINANCE													
Total Recurrent Revenue	92.80	98.24	100.00	114.23	108.65	125.75	130.60	134.59	156.46	161.08	157.97	170.75	174.78
<i>of which:</i>													
Customs and Excise	273.97	233.45	100.00	76.84	83.92	166.82	172.60	186.64	178.84	188.94	194.71	196.89	186.46
Consumption Tax	N/A	N/A	100.00	127.53	154.67	153.01	162.74	208.39	234.97	235.26	238.70	308.56	315.02
Income Tax	97.10	83.57	100.00	130.50	104.06	128.42	131.67	172.65	196.98	195.91	190.69	215.88	193.58
Social Security	75.24	89.73	100.00	115.72	110.32	117.78	122.89	138.93	152.31	147.73	151.35	149.91	143.90
Others	97.12	115.01	100.00	109.06	100.21	113.94	117.68	84.45	114.22	127.07	117.31	118.09	141.17
Total Expenditure	75.96	89.23	100.00	110.67	106.42	110.04	121.73	133.49	142.54	155.41	168.43	166.67	175.57
<i>consisting of:</i>													
Recurrent Expenditure	75.00	90.40	100.00	111.34	107.79	110.55	117.74	129.82	135.98	145.41	158.09	162.91	168.65
<i>of which</i>													
Education	100.63	113.37	100.00	105.21	102.00	106.79	111.17	115.78	131.02	132.69	138.90	132.12	130.49
Social security (benefits)	84.76	94.92	100.00	113.47	120.89	127.66	137.17	155.91	157.64	160.83	171.40	175.84	185.55
Others	67.13	85.23	100.00	111.23	102.76	103.46	110.01	120.15	127.03	140.29	154.81	161.40	166.38
Public Debt Servicing	108.20	130.70	100.00	124.97	229.93	337.62	388.45	419.83	430.23	572.79	478.80	516.12	511.73
Capital Programme	75.37	74.72	100.00	104.15	75.29	64.19	94.25	100.52	125.84	133.97	169.11	122.31	151.81
Productive Investment	63.38	70.46	100.00	82.49	42.95	29.57	74.74	67.49	74.22	69.13	57.66	38.65	58.69
Infrastructure	130.17	98.02	100.00	162.88	185.81	192.42	195.89	175.37	252.92	307.61	341.63	208.08	395.57
Social	89.03	76.15	100.00	164.94	145.58	130.49	105.32	206.36	282.27	317.85	598.07	483.58	420.93

Table 4. Revenue/Expenditure Heads

	2002	2003	2004	2005
	January - April			
	Lm '000s			
Revenue Heads				
Customs and Excise Duties	17,914	18,461	18,667	17,678
Licences, Taxes and Fines	26,757	25,505	34,033	27,574
Income Tax	44,574	43,386	49,117	44,042
Consumption Tax	37,664	38,215	49,398	50,432
Fees of Office	6,798	1,811	1,857	4,338
Reimbursements	2,128	1,427	1,556	1,820
Public Corporations	0	1,883	1,883	0
Central Bank of Malta	25,682	24,783	18,233	14,001
Rents	4,561	3,997	3,686	4,115
Dividends on Investment	20	141	573	355
Repayment of and Interest on, Loans made by Government	19	6	6	6
Social Security	47,209	48,365	47,906	45,986
Grants	754	449	325	17,272
Miscellaneous Receipts	1,198	2,695	963	5,973
Total Recurrent Revenue	215,275	211,124	228,201	233,592
Extraordinary Receipts	0	0	0	0
Loans	0	24,126	0	40,000
Total Non-Ordinary Revenue	0	24,126	0	40,000
Total Revenue	215,275	235,250	228,201	273,592
Recurrent Expenditure Heads				
Personal Emoluments	65,056	65,014	61,667	61,333
Operational and Maintenance Expenditure	17,290	20,197	19,832	12,144
Special Expenditure	145	195	214	153
Programmes and Initiatives	106,500	116,875	124,375	144,963
Contribution to Government Entities	19,112	23,978	27,069	22,776
Total Recurrent Expenditure	208,103	226,259	233,157	241,368

Source: The Treasury

Note: Figures may not add up due to rounding

Methodological Notes

1. The data contained in this news release are compiled in order to provide users with regular up-to-date information on the consolidated fund of Government. Data are sourced as follows:
 - i. Revenue and Expenditure, and Public Debt Servicing The Consolidated Fund, the transactions of which are consolidated at the Treasury.
 - ii. Central Government debt and debt guaranteed by Government Central Bank of Malta, the Treasury at the Ministry of Finance

All allocations provided out of this Fund are either authorised by Parliament under an Appropriation Act, or are permanently appropriated by Parliament under other relevant legislation. On the other hand, the Treasury Clearance Fund contains all those Funds and Accounts the expenses of which are initially defrayable out of public funds and are eventually repayable out of the Consolidated Fund or other sources.

2. This news release seeks to follow the guidelines set out in the European System of Accounts (ESA95) Manual on Government Deficit and Debt. Therefore the shortfall between revenue and expenditure as listed in Table 2, is essentially the cash-based deficit position as far as the Central Government's consolidated fund is concerned.

In this respect, revenue that has no impact on the deficit, such as proceeds from loans, proceeds from sale of financial assets and, revenue from other accounts of Government, are not taken into consideration. Likewise, direct loan repayments, contributions to sinking funds, as well as transfers into other accounts of Government are excluded from the total expenditure.

3. The debt position includes both the actual debt which is held by Government, as well as the recent debt assumption resulting from the Malta Shipyards restructuring exercise which took place in November 2003. On the other hand, any investments made by Government in its own funds are excluded from the total debt.
4. Table 2 presents a comparative exercise covering the period to date with the same period for the past two years. Moreover, in the text table, the aggregate expenditure figures for the current year are appearing against the budgetary projections, while last year's data are benchmarked against the actual final expenditure. Where practical, this comparative exercise is also presented (within the text of the release) for the main components of expenditure.
5. Table 3 presents an index for the main components of revenue and expenditure. The base year for this exercise is 1995, which is the year when Consumption Tax was introduced. In this table, over the years, there have been some adjustments to expenditures which were traditionally reported within the capital expenditure category, but which are now being recorded under recurrent expenditure. This repositioning has been done to better reflect the actual nature of the expenditure.
6. The individual revenue heads, and expenditure categories for the past 4 years are presented in Table 4. Here again caution needs to be exercised when using the recurrent expenditure heads since the setting up of new entities implies the shifting of their various expenditures from other categories to the 'contributions to government entities' category.
7. In the primary data source, and in line with the budget forecasts, the capital expenditure is further subdivided. Although no hard and fast rule is followed in this sub-classification, it is basically determined as follows:
 - i. **Productive Investment:** Expenditure on Tourism, including the subvention to the Malta Tourism Authority; capital expenditure relating to construction of factories and on agricultural/fisheries programmes.
 - ii. **Infrastructure:** All I.T. related expenditures, improvements to buildings, and construction projects (including road construction). All acquisition of property is classified within this category.
 - iii. **Social:** Capital expenditures (excluding I.T. and improvements to buildings) related to housing, education, health and waste management.These examples indicated in the definitions are presented for explanatory purposes only, and the list is not exhaustive. The contents of each category being provided here are presented for the purpose of illustration only, and are not exhaustive.
8. Revisions: the revenue and expenditure figures are based on actual cash transactions, and are therefore not, normally, subject to revision. Although revisions to debt data are uncommon, it is prudent to consider debt figures for the previous three months as provisional. Any revisions to the data will be carried out at the first opportunity and published accordingly in the next news release.